

FAS 106 Summary and Comments

(Rev. 3/10/94)

By

J. RICHARD HOGUE, F.S.A.

10423 Rubio Avenue
Granada Hills, CA 91344
(818) 366-9686

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INTRODUCTION

1. Broad category of benefits covered by FAS 106 - This statement establishes standards of financial accounting and reporting for an employer that offers **postretirement benefits other than pensions** (hereinafter referred to as **postretirement benefits**) to its employees.²

Comment: The project referred to in footnote 2 became FAS 112, *Employers' Accounting for Postemployment Benefits* which covers benefits paid after termination of employment by before retirement. Examples benefits covered by FAS 112 are:

- a. Salary continuation benefits
 - b. Supplemental unemployment benefits
 - c. Severance benefits
 - d. Disability related benefits (including workers' compensation)
 - e. Job training and counseling benefits
 - f. Continuation of health benefits such as health care benefits and life insurance coverage.
2. Common accounting practice prior to FAS 106 - Pay-as-you-go

Comment for persons without an accounting background: Pay-as-you-go does not match income and expense for a postretirement benefit plan.

3. Deferred compensation nature of postretirement benefit plans - FASB considers a postretirement plan as a deferred compensation arrangement whereby an employer promises to exchange future benefits for employees' current services.

Cost of benefits to be accrued over employee service period - Because the obligation to provide benefits is tied to the rendering of employee services, FASB believes that the cost of such benefits should be recognized over the employee service period.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

6. Specific types of benefits covered by FAS 106 - All benefits paid after retirement (excluding pension benefits which are covered by FAS 87 and 88). Examples:
- a. Health care
 - b. Life insurance provided outside a pension plan
 - c. Tuition assistance
 - d. Day care
 - e. Legal services
 - f. Housing subsidies

Excluded participants - None

Comment: Footnote 4 recognizes the special problem presented by the accrual of disability costs since the typical LTD plan does not have a retirement date that could be used as a demarcation between FAS 106 and 112. Thus, the accepted approach in making such a split is to use the earliest retirement date provided in the other postretirement plans as the retirement date for the LTD plan. Also see ¶ 137 and footnote 32 on this point.

Form of benefits - May be either:

- a. Reimbursement to plan participant
- b. Direct payment to provider
- c. Direct payment to beneficiary (e.g. lump sum death benefits)

Settlements and curtailments - Unlike pension accounting which provide a separate standard for plan settlements and curtailments, FAS 106 includes these standards as follows:

- a. Settlements - ¶ 90 - 95
- b. Curtailments - ¶ 96 - 99

7. Basis of postretirement benefit plan - A postretirement plan is an arrangement whereby the employer and employees understand that the employer will to pay benefits after retirement in exchange for current employee services.

Comment: FAS 106 includes the "substantive plan" concept not included in FAS 87. The substantive plan includes the current written plan plus any provision understood by both the employer and employees to change in the future if certain conditions are met. For example, the assumption that the medical plan deductible will increase in the future can be made if the employer and employees mutually understand that the medical plan will be accordingly amended in the future. (See ¶23)

8. Form of funding and plan document - FAS 106 applies, irrespective of whether the plan is:
- a. funded or unfunded
 - b. written or unwritten

It should be assumed that a past practice of providing postretirement benefits will continue in the future.

9. Applicability of FAS 106 to deferred compensation contracts - Does FAS 106 apply to deferred compensation contracts?

Yes if taken together they are equivalent to a plan
No if the contracts are designed to provide benefits for employees on an individual-by-individual basis.

The later situations should be accounted for individually following the terms of the contract. (See ¶ 13)

10. Plans covering both active and retired employees - How are postretirement benefits that are included in the same plan as the one that covers the active employees expected to be handled?

Answer: Postretirement benefits must be split out and treated as a separate plan for purposes of FAS 106.

Amendment to Opinion 12

13. Accounting treatment of deferred compensation contracts - Deferred compensation contracts that are subject to FAS 106 must be accounted for in a systematic manner so that the present value of all future benefits have been recognized by the date the employee could retire and receive the postretirement benefits (hereinafter referred to as the "full eligibility date").

Use of Reasonable Approximations

15. Use of reasonable approximations - The use of estimates, averages, or computational shortcuts are appropriate if the results are not materially different from a more direct calculation.

Single-Employer Defined Benefit Postretirement Plans

16. Primary focus of FAS 106 -
- a. Single employer plans (versus multiemployer plans - see ¶79 - ¶83)
 - b. Defined benefit plans (versus defined contribution plans - see ¶104 - ¶107)
17. Limits on employer's annual expense - Annual limits on the employer's expense or benefit obligation do not preclude the plan from being considered a defined benefit plan.
18. Nature and characteristics of postretirement benefit plans -
- a. Postretirement benefits are part of employee compensation for services rendered.
 - b. In a defined benefit plan, the employer agrees to pay future benefits in addition to current wages.
 - c. Such benefits usually depend on:
 - (1) a benefit formula
 - (2) the longevity of the retiree, and any beneficiaries and/or dependents
 - (3) the incidence of events requiring benefit payments (e.g. illness affecting the amount of health care required)

- d. Usually, services are rendered over a number of years before an employee retires and begins to receive benefits.
- e. Even after the services are complete and the employee retired, the total amount of employer promised benefits (and their related costs) are not precisely determinable but can be estimated using the following:
 - (1) the benefit formula
 - (2) estimates of the effects of relevant future events.

Basic Elements of Accounting for Postretirement Benefits

19. Accounting method considerations - The nature of postretirement benefit arrangements require any accounting method of such arrangements to consider the following:
- a. assumptions about future events
 - b. an attribution approach that assigns (1) benefits and (2) the cost of those benefits to individual years of service.

20. Expected postretirement benefit obligation (EPBO) - The EPBO is the present value of all future postretirement benefits expected to be paid by the employer as of a certain measurement date.

Comment on terminology: Actuaries refer to the "measurement date" as the "valuation date".

21. Accumulated postretirement benefit obligation (APBO) - The APBO is that portion of the EPBO attributed to an employee's service rendered as of such date. Normally, the APBO is determined according to the following formula:

$$\text{APBO} = \text{EPBO} \times \frac{(\text{Measurement Date} - \text{Hire Date})}{(\text{Full Eligibility Date} - \text{Hire Date})}$$

Full eligibility date definition - The "full eligibility date" is the date when an employee can retire and receive all the benefits provided under the postretirement benefit plan.

After the full eligibility date, the APBO = EPBO.

Comments:

- a. See ¶ 397-408 for some fine points related to the determination of the full eligibility date.
- b. The APBO under FAS 106 is comparable to the PBO (Projected Benefit Obligation) under FAS 87. There is no FAS 106 counterpart to the FAS 87 ABO (Accrued Benefit Obligation) which is the PBO calculated without a salary scale.

22. Net periodic postretirement benefit cost (NPPBC) - The net periodic postretirement benefit cost (NPPBC) has several components that are covered in later paragraphs of FAS 106.
- a. Service cost (SC) - actuarial present value of benefits earned in the current accounting period. The SC can also be considered as that portion of the EPBO attributable to the current year. The SC is not affected by the plan's degree of funding.
 - b. Interest cost (I) - interest on the APBO, or in formula form:
$$I = \text{Discount rate} \times \text{APBO} \quad (\text{See } \text{¶}31 \text{ for a discussion of the discount rate.})$$

Measurement of Cost and Obligations

Accounting for the Substantive Plan

23. Substantive plan definition - The objective of FAS 106 is to account for the plan as it is understood by the employer and its employees (i.e. the "substantive plan").
- While the written plan provides the best evidence of the plan provisions, some plan provisions (such as the cost sharing provisions) may be different from the written plan. In these situations, it is the combination of the written plan and unwritten (but understood by the employer and employees) provisions that make up the substantive plan and which is the basis for the accounting. (See comment for ¶7.)
24. Basis of valuation - See the decision tree at the end of this summary.
25. Past practice of increasing deductibles - A past practice of increasing deductibles (or other cost sharing provisions) can not be considered as part of the substantive plan if such benefit changes were offset with other forms of benefits or compensation. (See footnote 9 for example.)

Union plans - Per footnote 10, the basis for accounting with union negotiated benefits should be the written plan unless the employer can demonstrate that it can maintain a consistent

- a. level of cost sharing, or
- b. practice of increasing or decreasing its share of the costs of benefits

in past negotiations without making offsetting changes in other benefits or compensation of the affected plan participants or by incurring other significant costs to maintain that cost sharing arrangement.

Communication of an intent to change the plan - In a similar manner to footnote 10, an employer's communication of an intent to change the plan cannot be considered a part of the substantive plan if

- a. the plan participants would not be willing to accept such change without adverse consequences to the employer's operations, or
- b. other compensating modifications to the plan would have to be made.

26. Past practice of increasing benefits - A past practice of increasing benefits may indicate that an employer has a commitment to increase benefits in the future. If so, the substantive plan should include such future increases. It should not include changes that are not defined in monetary amounts such as a change in the surgical benefit from one based on a schedule to one based on reasonable and customary charges.
27. Participant contributions effect on EPBO - The EPBO is calculated net of participant contributions for retiree benefits.
28. Future plan changes that must be considered -
 - a. Automatic benefit changes included in current written document. Footnote 11 states that benefits paid in kind (such as health care services) are to be considered benefits that are subject to automatic increases.
 - b. Benefit changes resulting from plan amendments that have been contractually agreed to, even if such changes take place in the future.

Assumptions

29. Actuarial assumptions - In performing the calculations, the actuary must use the best estimate for each of the applicable assumptions (explicit assumptions) rather than a set of assumptions, some of which are intended to offset other assumptions (implicit assumptions).

Comment: Before computers, actuaries simplified the calculations by assuming the effects of some assumptions would offset the effect of other assumptions. As computer power increases, this technique is becoming obsolete. Current actuarial standards encourage the use of explicit assumptions.

30. Ongoing plan assumption - All assumptions should assume that the plan will continue in effect in the absence of other evidence.
31. Discount rate - The discount rate should reflect market conditions at the measurement date. The following may be used for this purpose:
 - a. Returns on high-quality fixed-income investments whose cash flows match the timing and amount of expected benefit payments.
 - b. Rates assumed for nonparticipating insurance contracts.

Comment: Normally the discount rate used for FAS 106 will be the same as that used for FAS 87. One reason for a difference in rates would be the longer average payout period under the postretirement medical plan as compared with the pension plan.

32. Expected long-term rate of return on plan assets - The expected long-term rate of return on plan assets (ELTRRPA) is based on the average return expected on
- a. the existing assets that qualify as plan assets (see ¶ 63-66), and
 - b. future contributions

The ELTRRPA should take into consideration any taxes expected to be paid on plan asset investment income.

The ELTRRPA is used with the Market Related Value of Plan Assets (MRVPA) to compute the Expected Return on Plan Assets (ERPA)

33. Future salary increases - Future salary increases should be considered when benefits are related to salary.

Important point: Elements of economic assumptions that apply to more than one assumptions (e.g. the inflation component) must be applied consistently in the valuation. Thus, if the discount rate includes a 3.5% inflation component, the salary and health care trend rates should also assume inflation at 3.5%. (See ¶ 42.)

Assumptions Unique to Postretirement Health Care Benefits

34. Assumptions unique to postretirement health care benefits - The following factors need to be considered in valuing postretirement health care benefits:
- a. Current claim costs by age
 - b. Health care cost trend rates
 - c. Medical coverage to be paid by
 - (1) government plans
 - (2) other employer plans

Important point: Many group medical plans are financed on a basis that hides the fact that medical claim costs increase by age. Frequently, a single "group rate" is calculated based on the average experience of all plan participants.

One common provision in plans that include an early retirement benefit is to have a retiree contribution equal to the group rate. Many employers think that in such an arrangement, since the retiree is paying "the cost of his or her medical benefits", there is no FAS 106 impact for the company. This overlooks the fact that the cost of medical benefits for an early retiree is usually considerably higher than the average cost for the group which is the basis of the retiree contribution.

For this reason, it is important to recognize the increasing nature of medical costs by age in the valuation process. (See footnote 14.)

This does not mean, however, that there are not some situations where the actuary might be justified in assuming level costs by age. For example, consider a plan that provided only a Medicare supplement benefit where the benefits were financed through a non experience rated insurance contract that had just one rate for all ages over 65.

In this case, since the financing did not involve averaging one lower cost group (which is not to be considered for FAS 106) with another higher cost group (which is to be so considered), there is some justification for using a single rate for all ages. While the results would not be identical to those resulting from a valuation based on a restructured set of increasing medical factors, they might not materially differ. (See question 11 of *A Guide to Implementation of Statement 106 on Employers' Accounting for Postretirement Benefits Other Than Pensions - Questions and Answers*)

35. Net incurred claims cost - The net incurred claims cost at each age equals the assumed per capita claims cost at each age less the following:
- a. Medicare benefits
 - b. benefits from other plans
 - c. the portion of the total costs paid by the participant through the following:
 - (1) deductibles
 - (2) copayment provisions
 - (3) out-of-pocket limitations
 - (4) caps on the limits of the employer provided payments
 - (5) retiree contributions

If the active lives must contribute toward their future retiree medical benefits, the actuarial present value of such contributions must be applied to reduce the employer's EPBO and APBO.

- 36/37 Assumed per capita claims cost - The assumed per capita claims cost (APCCC) by age is the average current cost by age where the age ranges from the earliest possible retirement age to the end of the mortality table (assuming benefits are payable for life). Past claims data for the plan should be used to develop the APCCC factors assuming they would be indicative of current plan costs. Other factors that should be considered in the development of the APCCC are as follows:

- a. administrative expenses
- b. sex
- c. geographical location

Comment: Recent plan amendments can distort claims data for the purpose of developing the APCCC factors.

38. External data - If reliable retiree claims data is not available, data from external sources may be used if it is adjusted to take into account the employer's plan and plan demographics.

Comment: Finding reliable external retiree data for developing the APCCC factors is one of the more difficult aspects of performing FAS 106 valuations for the small to medium size plans. The following alternative information may also be used to develop the APCCC factors:

- a. Active life claims data
- b. Insurance premiums for the covered group

39. Health care cost trend rate - The health care cost trend rate (referred to frequently as the "trend rate") represents the expected annual rate of change of the cost of health care benefits due to factors other than changes in plan demographics. Such expected future rates of change are considered from the valuation year to the year in which the last benefit is expected to be paid out. Past and current trend rates should be used in determining future trend rates, which implicitly consider changes in the following:
- a. health care inflation
 - b. health care utilization or delivery patterns
 - c. technological advances
 - d. health status of plan participants (See footnote 16)

Also, it may be appropriate to:

- a. use different trend rates for different services such as hospital and dental care.
- b. vary the trend rate by year.

Comments:

- a. The trend rates for medical services usually grades down from an initial rate to an ultimate rate in 10-15 years. The initial rate is frequently in the range of 10% to 14% with the ultimate rate being as follows with respect to the discount rate (which is usually level):
 - (1) aggressive - 3% higher than the discount rate
 - (2) conservative - 1% higher than the discount rate
 - b. It is common to test trend rate assumptions with respect to what they imply as to as how large the medical sector of the economy will grow as a percentage of the total GDP.
40. Benefits from other plans - Benefits provided by government plans or other employer plans should be determined on the basis of the current provisions of such plans. Benefits payable under government plans that are currently enacted but are not expected to become effective until some future date should be considered for current FAS 106 purposes.
41. Net versus gross claim factors - If sufficient data is not available to develop gross claim factors, net claim factors would be acceptable. However, if a net claim factor approach is taken, the trend rates which would otherwise have been applied to gross claims must be adjusted unless the plan's cost sharing provisions are expected to be increased at the same rate as gross claims.

Comment: See D.15.a of the FAS 106 Standard Confirmation Request letter.

42. Inflation assumption - The inflation assumption must be applied consistently with all economic assumptions.

Comment: See ¶ 33 and D.1 of the FAS 106 Standard Confirmation Request letter.

Attribution

43/44 Attribution period - The EPBO is attributed equally over the period of time that ends on the full eligibility date.

Comments:

- a. The common employee benefit term for "attribution" is "accrual".
- b. The benefit accrual provisions of medical and other postretirement benefit plans are generally not as refined as the corresponding provisions of pensions plans. For this reason, the comments referring to the following two situations will not usually apply to nonpension benefit plans:
 - (1) Disproportionate accruals in the early years of service (See ¶ 43)
 - (2) Benefit accrual starting some time after the date of hire. (See ¶ 44)

Thus, in the majority of situations, the EPBO will be accrued equally over the period of time from date of hire to the full eligibility date.

Recognition of Net Periodic Postretirement Benefit Cost

45. Relationship of APBO and attribution - Cost of providing postretirement benefits must be attributed to the period of service rendered in exchange for such benefits. Conceptually, this can be thought of as the change in the APBO. In practice, there are several reasons why the expense for a given year is not determined by taking the difference between the beginning and ending APBO values. These include the following, all of which can be taken into account on a delayed basis in determining the annual cost:

- a. experience gains and losses
- b. changes in actuarial assumptions
- c. plan amendments

46. NPPBC Components - The NPPBC has the following components:

- a. Service cost
- b. Interest cost
- c. Actual return on plan assets, if any
- d. Amortization of unrecognized past service cost, if any
- e. Actuarial gains and losses, to the extent recognized
- f. Amortization of the unrecognized transition obligation or asset existing on the FAS 106 date of compliance.

The amortization of the transition obligation or asset may be affected by any one of the following (see footnote 18):

- a. A negative plan amendment (See ¶ 55)
- b. A constraint on the immediate recognition of a net gain or loss (See ¶ 60 - last sentence)
- c. Settlement accounting (See ¶ 92-93)
- d. Plan curtailment accounting (See ¶ 97-99)
- e. A constraint on the delayed recognition of the transition obligation (See ¶ 112)

52. Cost of benefit improvements definition - the increase in the APBO on the date of the plan amendment as a result of such amendment

Cost of benefit improvements amortization -

- a. Standard method: By assigning an equal amount to each future year of service up to the full eligibility date for all active participants not yet at their full eligibility date
- b. Exception where most participants are beyond their full eligibility date: By amortizing the cost over the average future life expectancy of the plan participants
53. Simplified amortization methods - To simplify ¶ 52, an alternative amortization approach can be used so long as:

- a. it is used consistently, and
- b. it produces a faster amortization than ¶ 53.

Example: A straight-line amortization of the cost over the average remaining years of service to the full eligibility date.

Comment: The standard approach and example produce the same results if no turnover is assumed. With turnover, the example would produce a faster amortization, as can best be seen by considering the first year's amortization for a two participant plan where the facts are as follows:

Participant	Future Service	
	Potential	Expected
A	2	1
B	1	1
Total	3	2

Assume that the increase in the APBO due to the amendment is \$3,000. The first year's cost under the standard approach and example would be as follows:

- a. Standard - \$2,000 (i.e. [\$3,000/3] x 2)
- b. Example - \$3,000 (since the average remaining future service is 1)
54. History of regular plan amendments - A history of regular plan amendments and other evidence may indicate that the period during which the employer can expect to realize economic benefits is shorter than the average number of years of service to the full eligibility date. In such situations, a faster amortization of the prior service cost would be justified.

Comment: This paragraph was included so that FAS 106 would have a comparable provision to ¶ 27 of FAS 87. From a practical standpoint, however, there will be very few situations where ¶ 54 of FAS 106 applies. (See ¶ 167 of FAS 87 for some examples of pension situations that resulted in ¶ 27.)

55. Amendments that reduce the APBO - they must be treated as follows:

<u>Priority</u>	<u>Reduce the following:</u>
1	Any unrecognized prior service cost
2	Any unrecognized transition obligation

Any excess shall be amortized on the same basis as specified in ¶ 52. Immediate recognition of the excess is not permitted.

Gains and Losses

56. FAS 106 actuarial gain/loss definition - unanticipated changes in either the APBO or plan assets due to:

- a. Experience being different from that assumed, or
- b. Changes in actuarial assumptions

FAS 106 does not distinguish between these two types of gains/losses. Except as required by ¶ 61 (and by the settlement/curtailment accounting rules in ¶ 90-99), FAS 106 does not require gains/losses to be recognized as a component of the NPPBC in the year in which they arise.

57. Expected return on plan assets - is based on the following:

- a. Market related value of plan assets (MRVPA), and
- b. Expected long-term rate of return on plan assets (ELTRRPA)

MRVPA can either be:

- a. Fair value, or
- b. A calculated value that recognizes changes in the fair value in a systematic and rational manner over not more than 5 years.

Different methods can be used for different classes of assets so long as they are applied consistently from year to year.

58. Plan asset gains and losses - represent the difference between:

- a. Actual return on plan assets for a given period, and
- b. Expected return on plan assets for the same period.

They include both:

- a. Changes reflected in the MRVPA
- b. Changes not yet reflected in the MRVPA (i.e. a difference between the fair value and MRVPA)

Plan asset gains and losses not yet reflected in market-related value are not required to be amortized under ¶ 59-60.

59. Minimum amortization of unrecognized gain/loss - Minimum amortization of an unrecognized gain or loss (excluding plan asset gains/losses not yet reflected in market-related value) must be included in NPPBC if, as of the beginning of the year, such gain/loss exceeds 10% of the greater of:

- a. APBO, or
- b. MRVPA

If an amortization is required, the minimum is defined as such excess (as defined above) divided by the following number of years:

- a. Standard method: Average remaining service period of active participants.
- b. Exception where most participants are inactive: By amortizing the cost over the average future life expectancy of the inactive participants

60. Alternative amortization methods for gains/losses - Any systematic alternative amortization method can be used in place of the minimum defined in ¶ 59 so long as:

- a. the minimum is used in any year where it would produce a greater amortization amount than that defined by the alternative method,
- b. it is used consistently,
- c. the method is applied consistently to both gains and losses
- d. the method is disclosed.

If gains and losses are recognized immediately, they must be handled as follows:

Gain/Loss	1st priority - to reduce:	2nd priority - to reduce:
Gain	Prior recognized losses	Unrecognized transition obligation
Loss	Prior recognized gains	Unrecognized transition asset

61. Retrospective adjustments - In some situations, an employer may forgive a retrospective adjustment of the current or past year's cost-sharing provisions of the plan as they relate to benefit costs already incurred by retirees. The effects of such decisions must be recognized immediately as a loss (with corresponding treatment of gains).

62. Gain/loss component of the NPPBC - consists of the following:

- a. Actual return on plan assets - Expected return on plan assets
- b. any gain or loss:
 - (1) from the current year which is immediately recognized (other than a gain/loss defined by ¶61), or
 - (2) from a prior period (that is so far unrecognized) and being amortized in the current year.
- c. any gain recognized immediately as a result of ¶61.

Measurement of Plan Assets

63/64 Plan assets - Plan assets are assets that have been segregated and restricted (usually in a trust) to be used for postretirement benefits. Securities of the employer held by the plan are includable in plan assets provided they are transferable.

Assets not segregated in a trust, or otherwise effectively restricted, are not plan assets even though the employer may intend on using such assets for post retirement benefits. Employer contributions accrued, but not yet paid to the plan, are not plan assets.

65. Disclosure considerations for plan assets - For disclosure purposes, plan assets must be measured at fair value as of the measurement date. Fair value should be measured by one of the following:

- a. Active market for given investment
- b. Active market for similar investment if 65a does not exist
- c. Discounted expected cash flows, if neither 65a or 65b exists. (See footnote 21.)

66. Assets used in plan operations - Plan assets used in plan operations should be measured at cost less accumulated depreciation or amortization for all purposes.

Insurance Contracts

67. Insurance contract characteristics - for purposes of FAS 106:

- a. A contract in which an insurance company unconditionally undertakes a legal obligation to provide specified benefits to specific individuals in return for a fixed consideration or premium.
- b. The contract must be irrevocable
- c. The contract must involve the transfer of significant risk from the employer (or plan) to the insurance company

Insurance contract exclusions - The following exclusions are applicable to insurance contracts:

- a. Benefits covered by insurance contracts are excluded from the APBO
- b. Insurance contracts are excluded from plan assets except as provided in ¶ 69 for the cost of participation rights.

68. Participating insurance contracts - A contract in which either the plan or employer participates in the experience of the plan through dividends paid by the insurance company. If a contract results in the employer remaining subject to all or most of the risks associated with the benefit obligation, it is not an insurance contract for the purposes of FAS 106. Accordingly, the purchase of such a contract does not constitute a settlement pursuant to ¶ 90-95.

69. Participating contract purchase price accounting
- a. Cost of participating right
= cost of participating contract
- cost of comparable non participating contract
 - b. The cost of a participating right must be recognized at the date of purchase as an asset.
 - c. In subsequent periods, it must be measured as follows:
 - (1) at fair value, if such can be estimated
 - (2) at amortized cost, if fair value can not be estimated
 - d. Any amortization method must be:
 - (1) systematic, and
 - (2) over the expected dividend period under the contract
70. Cost of benefits funded through insurance - If postretirement benefits attributed to service rendered during the current period are funded with insurance contracts, the cost of such benefits is defined by the purchase price of the contract (except as provided in ¶ 69).
71. Contracts with insurance companies that are not insurance - Contracts with insurance companies that do not meet the definition of an insurance contract (see ¶ 67) must be accounted for as an investment. If the contract has a cash surrender or conversion value, that is presumed to be its fair value.

Measurement Date

72. Measurement date timing - The measurement date of plan assets and obligations must be as of the date of the financial statements or within three months thereof. Projections from an earlier period are permitted.

Comment: It is common to handle the FAS 106 calculations as follows:

- a. Use a measurement date three months prior to the financial statement date.
- b. Base disclosure information on participant census data as of the beginning instead of at the end of the period.

This has the following advantages:

- a. It provides a three month lead period for preparing the disclosure information.
- b. It permits the calculation of the disclosure information at the same time as the next year's NPPBC. Combining these two functions is usually not possible without the three month lead on the measurement date since next year's census data would usually not be ready by the time the disclosure information would be required.

73. Actuarial assumption rule - Under normal circumstances, the assumptions used calculate the NPPBC for the current period must be based on the same assumptions that were used for the previous year's disclosure calculations. Exceptions that would justify the use of different assumptions could include the following significant events:
- a. Amendment
 - b. Settlement
 - c. Curtailment

Example: In the case of a company with a calendar fiscal year, if the plan were substantially amended on 7/1, the discount rate used to calculate the NPPBC for the period from 7/1 to 12/31 should be based on interest rates available on 7/1 instead of the previous 1/1.

Disclosures

74. Disclosures required for defined benefit plans - Employers sponsoring one or more defined benefit postretirement benefit plans must disclose the information contained in 74a-74j.
- 74a. Description of the substantive plan - must include the following:
- a. Nature of plan
 - b. Any modifications of the existing cost sharing provisions that are included in the substantive plan (Refer to ¶ 24-25)
 - c. The existence and nature of any commitment to increase monetary benefits provided by the postretirement benefit plan (Refer to ¶ 26)
 - d. Employee groups covered
 - e. Types of benefits provided
 - f. Funding policy
 - g. Types of assets held
 - h. Significant nonbenefit liabilities
 - i. The nature and effect of significant matters affecting the comparability of information for all periods presented (i.e. the effect of a business combination or divestiture)
- 74b. NPPBC - itemized as follows:
- a. Service cost (+)
 - b. Interest cost (+)
 - c. Actual return on plan assets for the period (-)
 - d. Amortization of the unrecognized transition obligation (asset) (+)
 - e. Net total of other components (+) [which include the following]:
 - (1) The net asset gain (loss) during the period deferred for later recognition (+)
 - (2) Amortization of net loss (gain) from earlier periods (+)
 - (3) Amortization of unrecognized prior service costs (+)
 - (4) Any gain (loss) recognized due to a temporary deviation from the substantive plan (see ¶ 61) (+)

Comment: The FAS 106 Standard Confirmation Request includes the amortization of the transition obligation with the "net of other components" by mistake. It should be disclosed separately as shown above.

74c. Funded status reconciliation schedule - A schedule reconciling the funded status of the plan(s) with amounts reported in the employer's financial statements, showing separately:

- a. APBO (+), showing separately the following:
 - (1) Retirees and beneficiaries eligible for benefits
 - (2) Dependents of retirees eligible for benefits
 - (3) Active employees fully eligible for benefits
 - (4) Terminated employees fully eligible for benefits
 - (5) Active employees, not fully eligible for benefits
 - (6) Other

Comment: The above itemization is from the FAS 106 Standard Confirmation Request. FAS 106 itself only requires the following breakdown of the APBO:

- (1) Retirees
- (2) Other fully eligible plan participants
- (3) Other active plan participants

- b. Fair value of plan assets (+)
- c. Funded status = (a-b)
- d. Unrecognized prior service cost (+)
- e. Unrecognized net loss (gain) (+)
- f. Unrecognized transition obligation (asset) (+)
- g. Accrued (prepaid) postretirement benefits cost (+)
= (c-d-e-f)

74d. Health care cost trend rates - The following with respect to the health care cost trend rates (as applied to gross eligible charges):

- a. Next year's rate
- b. Ultimate rate
- c. Year in which ultimate rate will be reached

Comments: Frequently, information concerning the breakdown of total claims between that portion paid by the employer, participant, Medicare and other plans is not available. In these situations, the actuary must use net claims (i.e. the benefit paid by the plan) as the basis of the current claim cost for the valuation.

Because changes in net claim costs may not be expected to follow the same pattern as changes in gross claims (because the various components of gross claims are not expected to change at the same rate), the trend rates, as applied to net claims may be different than the trend rates applied to gross claims.

Although FAS 106 assumes the use of gross claims and the corresponding disclosure of the trend rates applied to such claims, question 15a of the FAS 106 Standard Confirmation Request letter anticipates the use of net claims in the valuation process in some situations. It thus asks for any adjustments that were made to the gross trend rates to arrive at the trend rates applied to net claims in the valuation. It also asks for the trend rates that should be disclosed which are rates that would have been used had they been applied to gross claims.

The above comments assume a situation where the actuary develops claim costs from basic claims data or from experience rated insurance policies. There are situations where the basis of the valuation can be premium rate paid for the policy used to finance the

health care benefits. (See question 11 of *A Guide to Implementation of Statement 106 on Employers' Accounting for Postretirement Benefits Other Than Pensions - Questions and Answers*.)

In those situations it would seem that the rates disclosed should be those rates used to project future premiums rather than some other rates that would only loosely be related to the underlying gross eligible charges. However, it is important to adequately describe how the trend rates were applied since this is an approach which is somewhat different to that prescribed by FAS 106.

74e. Weighted-average rates

- a. Discount rate
- b. Compensation increase rate for pay-related plans
- c. Expected long-term rate(s) of return on plan assets
- d. Estimated income tax rate(s) included in the rate of return (only for those plans whose investment income is segregated from the employer's investment income for tax purposes)

74f. Effect of 1% increase in the health care cost trend rate - must show effect on the following for each future year:

- a. The aggregate of the following components of the net periodic postretirement benefit cost:
 - (1) Service cost
 - (2) Interest cost
- b. APBO

The following are criteria for the purposes of ¶ 74f:

- a. All other assumptions should be held constant
- b. The effects should be measured based on the substantive plan that is the basis of the accounting

74g. Plan asset related information

- a. The amount and type of securities of the employer and related parties
- b. The approximate amount of future annual benefits of plan participants covered by insurance contracts

Comment: The information required by ¶ 74g has not been incorporated in the FAS 106 Standard Confirmation Request letter.

74h. Alternative amortization methods - Any alternative amortization methods used pursuant to ¶ 53 or 60.

Comment: The information required by ¶ 74h has not been incorporated in the FAS 106 Standard Confirmation Request letter.

74i. Settlements and curtailments - The following information related to settlements and curtailments:

- a. The amount of any gain or loss recognized during the period.
- b. A description of the nature of the event(s) (See ¶ 90-99)

74j. Special or contractual termination benefits - The following related to any special or contractual termination benefits recognized during the period:

- a. The cost of such benefits
- b. A description of the nature of the event(s)

(See ¶ 101-102)

Employers with Two or More Plans

75/76 Aggregation of plans for measurement purposes - aggregation of postretirement benefit plans may (but need not) occur under the following circumstances:

- a. If the plans are unfunded (including plans with assets that do not meet the definition for such under FAS 106)
- b. If either of the following exist with respect to all plans to be aggregated:
 - (1) They cover the same employees
 - (2) They provide the same benefits
- c. If either of the following exist:
 - (1) All plans provide health care benefits
 - (2) All plans provide other than health care benefits

Comment: There are many situations where it would not be appropriate from an actuarial standpoint to aggregate plans for measurement purposes even though they met the above criteria. The following are two examples:

- a. Unfunded medical and dental plans may cover the same employees but because dental benefits are increasing at a slower rate than medical benefits, different health care trend assumptions would probably be appropriate for the two types of benefits.
- b. An unfunded medical plan may offer the same package of benefits to both the hourly and salaried employees. However, if prior turnover experience of the two groups has been materially different, it may not be appropriate to assume that it will be sufficiently similar in the future to justify the use of the same turnover table for both groups.

77/78 Aggregation of plans for disclosure purposes - aggregation of postretirement benefit plans may (but need not) occur except under the following circumstances:

- a. For the purposes of ¶ 74c, the following information, on an aggregate basis, must be disclosed separately for all plans whose assets are less than the APBO:
 - (1) Plan assets
 - (2) APBO
- b. For the purposes of all disclosures, the following aggregation rules apply to postretirement plans:
 - (1) Plans that provide primarily health care benefits must be shown separately from plans that provide other welfare benefits if the APBO of the latter is a significant portion of the total APBO.
 - (2) Plans inside the U.S. must be shown separately from plans outside the U.S. if the APBO of the latter is a significant portion of the total APBO.

Multiemployer Plans

79/80 Multiemployer plans - definition and characteristics

Definition - a plan to which two or more unrelated employers contribute which is not a multiple-employer plan (See ¶ 84)

Characteristics

- a. The plan is usually pursuant to one or more collective bargaining agreements
- b. Plan assets are not segregated according to which employer's contributions gave rise to such assets.
- c. Plan contributions made by one employer may be used to provide benefits to employees of other participating employers.
- d. Plan is administered by a board of trustees composed of management and labor representatives.
- e. Plan may be referred to a "joint trust" or "union plan"
- f. Many employers generally participate in the plan
- g. A participating employer may participate in more than one plan
- h. Participating employers usually have a common industry bond

Exceptions to the above general rules:

- a. In some situations, participating employers are in different industries and the labor union may be their only common bond.
- b. Some multiemployer plans do not involve a union. Example: Local chapters of a not-for-profit organization may participate in a plan established by the related national organization.

81. Multiemployer plans - accounting considerations

- a. NPPBC = required contributions for the period
- b. Required contributions should include the following:
 - (1) Cash
 - (2) Fair market value of non cash contributions
- c. End of period liability = unpaid contributions for period

82. Multiemployer plans - disclosure considerations - An employer that contributes to one or more multiemployer plans must disclose the following separately from the single employer plans:
- a. A description of the plans, including the following:
 - (1) Employee groups covered
 - (2) Type of benefit provided (i.e. defined benefit or defined contribution)
 - b. The nature and effect of significant matters affecting comparability of information for all periods presented.
 - c. The following amounts:
 - (1) Post retirement benefit cost, if available. Otherwise, show:
 - (2) The amount of the aggregate required contribution for the period to the general health and welfare benefit plan that covers both active and retired employees.
83. Multiemployer plans - withdrawal considerations - In some situations, withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of the plan's unfunded APBO. FAS 5, *Accounting for Contingencies*, shall apply if it is either probable or reasonable that:
- a. An employer would withdraw from the plan under circumstances that would give rise to an obligation, or
 - b. An employer's contribution would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage (i.e. a "maintenance of benefits" clause)

Multiple-Employer Plans

84. Multiple-employer plans - A multiple-employer plan is a plan to which two or more employers contribute and may have some of the following characteristics which are generally different from multiemployer plans:
- a. The plan may not be the result of a collective bargaining agreement
 - b. The plan may have features that allow participating employers to have different benefit formulas with the employer's contributions to the plan based on the benefit formula selected by the employer.

A multiple-employer plan must be considered as a collection of single employer plan for the purpose of FAS 106.

Comment: The definition of "multiple-employer plan" on page 200 of FAS 106 includes the following sentence:

"A multiple-employer plan maintains separate accounts for each employer so that contributions provide benefits only for employees of the contributing employer."

This identical sentence is contained in FAS 87, Employers' Accounting for Pensions. Considering the unfunded nature of most postretirement health and welfare plans, it would seem that this sentence can not be considered as a criteria of multiple-employer plan.

Postretirement Benefit Plans outside the United States

85. Plans outside the U.S. - Except for the effective date (See ¶ 108), FAS 106 contains no special provisions for postretirement benefit arrangements outside the U.S. Thus, the following characteristics are immaterial in determining the applicability of FAS 106:
- a. Funded status
 - b. Whether benefits are paid at intervals or as a single amount
 - c. Whether benefits are required by law or custom or are provided under a plan the employer has elected to sponsor.

Business Combinations

86. Business combinations - purchase accounting assumed - When an employer sponsoring a postretirement benefit plan is acquired in a business combination that is accounted for by the purchase method under Opinion 16, the assignment of the purchase price to individual assets acquired and liabilities assumed must include one of the following:

- a. A liability for the APBO in excess of the fair value of the plan assets
- b. An asset for the fair value of plan assets in excess of the APBO

The APBO must be measured based on the benefits attributed by the acquired entity to employee service prior to the date of the business combination, adjusted to reflect the following:

- a. Any changes in assumptions based on the purchaser's assessment of relevant future events (as discussed in ¶ 23-42), and
- b. The terms of the substantive plan (as discussed in ¶ 23-28) to be provided by the purchaser to the extent they differ from the terms of the acquired entity's substantive plan.

87. Business combinations - changes in benefits - The accounting treatment of a postretirement benefit plan sponsored by an acquired entity may be handled in one of the following ways:

- a. If the plan is amended to improve benefits as a condition of the business combination - the effects of any improvements attributed to services rendered by the participants of the acquired entity's plan prior to the date of the business combination must be accounted for as part of the APBO
- b. If the plan is amended to improve benefits but not as a condition of the business combination - credit granted for prior service must be recognized as a plan amendment (See ¶ 50-55)
- c. If it is expected that the plan will be terminated or curtailed - the effects of those actions must be considered in the calculation of the APBO
- d. In all other situations - no future changes in the plan should be anticipated

88. Business combinations - prior unrecognized items - As a result of applying the provisions of ¶ 86-87, any of the following previously existing unrecognized items will be eliminated:

- a. Gain or loss
- b. Prior service cost
- c. Transition obligation or asset

Subsequently, to the extent that the net obligation assumed or net asset acquired are considered in determining contributions to the plan, the following will reduce the liability or asset recognized at the date of the combination (REDUCTION):

REDUCTION = Contribution - NPPBC

Accounting for Settlement of a Postretirement Benefit Obligation

90. Settlement definition - a transaction that satisfies all of the following criteria:
- a. is an irrevocable action
 - b. relieves the employer (or the plan) of primary responsibility for a postretirement benefit obligation
 - c. eliminates significant risks related to the obligation and the assets used to effect the settlement²⁴

Footnote 24: If an insurance contract is purchased from an insurance company controlled by the employer, such purchase does not constitute a settlement.

Comment: The settlement of all or a portion of an employer's APBO is the final realization of past gains or losses associated with the settled obligation. A current or subsequent decision to continue the plan or adopt another defined benefit plan does not offset the gain or loss recognized on the current settlement.

Settlement examples

- a. Making lump sum payments to plan participants in exchange for their rights to receive specified postretirement benefits
- b. Purchasing long-term nonparticipating insurance contracts for the APBO for some or all of the plan participants

Comment: Although settlements may occur with retiree life insurance plans where insurance is readily available, they will not be common with postretirement health care plans.

91. Settlement - negative example

- a. Example of a transaction that does not meet the definition of a settlement:
Investing in a portfolio of high-quality fixed-income securities with principal and interest payment dates similar to the estimated payment dates of benefits
- b. Reasons: The investment decision:
 - (1) is not irrevocable
 - (2) does not relieve the employer (or the plan) of primary responsibility for a postretirement benefit obligation
 - (3) does not eliminate significant risks related to that obligation

92. Settlement - maximum gain or loss - The maximum gain (See ¶ 94) or loss subject to recognition in income when a postretirement benefit obligation is settled is the sum of the following:

- a. The unrecognized net gain or loss defined in ¶ 56-60
- b. Any remaining unrecognized transition asset

The maximum gain or loss includes any gain or loss resulting from remeasurement of plan assets and the APBO at the time of settlement.

93. Settlement - accounting treatment - The amount recognized in the income statement is a proportion (P) of the sum of the following:

- a. Total previously unrecognized net gain or loss
- b. Total unrecognized net transition asset

P is defined as follows:

$$P = 1 - [(APBO \text{ after settlement}) / (APBO \text{ before settlement})]$$

The net amount is then accounted for as follows:

- a. Gain
 - (1) 1st priority - used to reduce any unrecognized transition obligation²⁵
 - (2) 2nd priority - any remaining amount is then taken into earnings
- b. Loss - taken into earnings

Footnote 25 - It may be necessary to increase the amortization of the transition obligation before the gain or loss subject to recognition in the income statement is determined. The amount of such increased amortization would be the excess of "a" over "b" where "a" and "b" are defined as follows:

- a. Sum of the following:
 - (1) payments resulting from the settlement
 - (2) cumulative benefit payments (prior to settlement payments) since the adoption of FAS 106*
- b. That portion of the transition obligation recognized since the adoption of FAS 106

* If there are plan assets or an accrued postretirement benefit expense as of the FAS 106 adoption date, subsequent benefit payments are first used to reduce these amounts before starting the post FAS 106 adoption date benefit accumulation process.

Footnote 26 (which applies to all of ¶ 93) - Because the plan is the unit of accounting, the determination of the effects of a settlement considers only the unrecognized net gain or loss and unrecognized transition obligation or asset related to the plan for which all or a portion of the accumulated postretirement benefit obligation is being settled.

Comment: Note that any unrecognized prior service cost does not enter the calculation of the gain or loss on settlement. It continues to be amortized over the estimated future service period of the employees, assuming those employees are expected to provide future service to the employer pursuant to the continuing postretirement benefit plan.

94. Settlement - participating insurance contracts - If the purchase of a participating insurance contract constitutes a settlement (see ¶ 67 and ¶ 90), the maximum gain (but not the maximum loss) must be reduced by the cost of the participation right before determining the amount to be recognized in income.

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95. Settlement - ignoring gains and losses - Gains and losses from settlements can be ignored if the cost of all settlements²⁷ during the year is less than or equal to the sum of the following components of the net periodic postretirement benefit cost:

- a. Service cost
- b. Interest cost

However, whatever accounting policy is adopted must be followed consistently from year to year.

Footnote 27 - For the following types of settlements, the cost of settlement is shown below:

Type	Cost
Cash settlement	Amount of cash paid to plan participants
Settlements using nonparticipating insurance contracts	Cost of the contracts
Settlements using participating insurance contracts	Cost of the contracts less the amount attributed to participation rights(see ¶68-69)

Accounting for a Plan Curtailment

96. Curtailment definition - an event that:

- a. significantly reduces the expected years of future service of active plan participants, or
- b. eliminates the accrual of defined benefits for some or all of the future services of a significant number of active plan participants

Comment: Because the work force has been reduced or the accrual of benefits for some or all future services has been eliminated, the employer will not realize all the expected future economic benefits of plan amendments being amortized over the expected remaining service lives of employees. For this reason, the expensing of the unrecognized prior service costs should be accelerated with regard to the related employees.

Curtailment examples

- a. Termination of employees' services earlier than expected, which may or may not involve closing a facility or discontinuing a segment of a business
- b. Termination or suspension of a plan so that employees do not earn additional benefits for future service. In this situation, future service may be counted toward eligibility for benefits based on past service.

Comment: The gain or loss to recognized from a plan curtailment consists of the following two elements:

- a. The unrecognized prior service costs associated with the decline in expected years of service (See ¶ 97), and
- b. The change in the APBO (excluding increases in the APBO due to termination benefits) (See ¶ 98)

It is the combined effect of these two elements (i.e. a net gain or net loss) that determines the timing of recognition (See ¶ 99)

97. Curtailement - unrecognized prior service costs - The unrecognized prior service costs equals the sum of the following:

- a. Unrecognized cost of plan amendments adopted subsequent to the FAS 106 compliance date
- b. Unrecognized transition obligation

The portion of the unrecognized prior service costs to be recognized at time of curtailment (UPSCR) is defined as follows:

$$\text{UPSCR} = \frac{\text{Unrecognized prior service costs} \times [1 - (\text{Expected years of future service after curtailment})]}{(\text{Expected years of future service before curtailment})}$$

The above calculation is performed separately for the following:

- a. Unrecognized transition obligation (based on the employee group active on the FAS 106 compliance date).
- b. Each plan amendment (based on the employee group active on the date each amendment was adopted).

98. Curtailement - change in the APBO - The procedure for determining the amount of the curtailment gain or loss to recognize as a result of a change in the APBO is as follows:

- a. Remeasure the APBO as of the curtailment date based on the settlement rate as of such date. For the purposes of this paragraph, increases in the APBO due to termination benefits are excluded. If the APBO has decreased (increased) since its previous calculation, a curtailment gain (loss) has occurred.
- b. Offset the curtailment gain or loss as indicated in the following table:

Curtailement	Offset against unrecognized net	If any of the following remains, recognize it as a
Gain	Loss (1)	Gain
Loss	Gain (2)	Loss

Notes:

- (1) Less any unrecognized transition asset
- (2) Plus any unrecognized transition asset

99. Curtailement - timing of recognition - The combined effect of ¶ 97-98 should be recognized as follows:

- a. Net curtailment loss - record when:
 - (1) It is probable that a curtailment will occur and
 - (2) The extent of the curtailment can be reasonably estimated
- b. Net curtailment gain - record when the gain is realized (i.e. when the related employees terminate or the plan suspension or amendment is adopted)

Relationship of Settlements and Curtailments to Other Events

100. Relationship of settlements and curtailments - Settlements and curtailments can occur separately or together, as the following table indicates:

Example	Account as:
Benefits expected to be paid in future periods are eliminated for some plan participants (e.g. because a significant portion of the work force is dismissed or a plant is closed) but the plan remains in existence and continues to pay benefits, to invest assets and to receive contributions	Curtailment only
An employer purchases nonparticipating insurance contracts for the APBO and continues to provide defined benefits for future service, either in the same plan or in a successor plan	Settlement only
A plan termination occurs (i.e. the obligation is settled and the plan ceases to exist) and the plan is not replaced by a successor defined benefit plan	Settlement and curtailment

Measurement of the Effects of Termination Benefits

101. Termination benefits - types and recognition - FAS 106 recognizes the following two types of termination benefits:

- a. Special - Additional benefits offered by the employer for a limited period of time to employees electing termination
- b. Contractual - Benefits provided to employees when employment is terminated due to an event specified in the provisions of an existing plan or agreement

A loss is recognized and a liability recorded for termination benefits as follows:

- a. Special - when both of the following occur:
 - (1) The employees accept the offer
 - (2) The amount of the termination benefit liability can be reasonably estimated
- b. Contractual - when both of the following occur:
 - (1) When it is probable that employees will be entitled to the benefits
 - (2) The amount of the termination liability can be reasonably estimated.

A situation involving special or contractual termination benefits may also result in a curtailment to be accounted for under ¶ 96-99.

102. Special termination benefit loss calculation - The liability and loss recognized for employees who accept an offer of special termination benefits equals "b" minus "a" where "a" and "b" are defined as follows:

- a. APBO calculated without considering any special termination benefits for active employees, as follows with respect to whether they have attained their full eligibility date (FED):
 - (1) Have attained FED - assume that they would terminate at their FED
 - (2) Have not attained FED - assume that they would terminate immediately
- b. APBO calculated as in "a" above but adjusted to reflect the special termination benefits.

Disposal of a Segment

103. Disposal of business segment - If the termination benefits are part of a disposal of a business segment, the gain or Loss should be recognized according to APB Opinion No. 30 as follows:

- a. Gain - when realized
- b. Loss - when the disposal plan is adopted

Defined Contribution Plans

104. Defined contribution (DC) plan definition - a plan that:
- a. provides postretirement benefits in return for services rendered
 - b. provides an individual account for each participant
 - c. has terms that specify how contributions to the individual's account are to be determined (rather than the amount of postretirement benefits a plan participant will receive).³⁰

DC plan example (provided in Footnote 30) - An employer may establish individual postretirement health care accounts for each employee, each year contributing a specified amount to each active employee's account. The balance in each employee's account may be used by that employee after the employee's retirement to purchase health care insurance or for other health care benefits.

DC plan characteristics - the amount of benefits a plan participant can receive are limited to the sum of the following:

- a. Plan contributions
 - b. Investment earnings
 - c. Forfeitures of other plan participants
105. DC plan - NPPBC - The net periodic postretirement benefit cost is determined according to whether the employee's service is compensated by employer contributions in the same period as the service is rendered or in some future period:
- a. Same period - amount of employer contributions made in current period
 - b. Future period - estimated cost of employer contributions should be accrued over the employee's service period
106. DC plan - disclosures - Separate disclosure requirements for defined contribution plans are as follows:
- a. A description of the plan(s) including the following:
 - (1) Employee groups covered
 - (2) Basis for determining contributions
 - b. A description of the nature and effect of significant matters affecting comparability of information for all periods presented
 - c. The amount of cost recognized during the period
107. DC plan - plans that have both DC and DB characteristics - The substance of a plan that has both defined benefit and defined contribution characteristics needs to be considered when determining its accounting treatment. For example, target benefit plans should be accounted for as a defined benefit plan even though they have many defined contribution plan characteristics.

Effect Dates and Transition

108. Effective dates - FAS 106 must be adopted no later than the first day of the first fiscal year that begins after the date indicated in the following table:

Situation	Effective Date
Normal	12/15/92
Exceptions: a. Nonpublic corporations where all plans have a total of 500 or fewer participants* b. Non U.S. plans	12/15/94

- * Note the following definition of "plan participant":

Any employee or former employee who has rendered service in the credited service period and is expected to receive employer-provided benefits under the postretirement benefit plan, including benefits to or for any beneficiaries and covered dependents.

The following rules apply to previously issued statements

- a. Annual statements - restatement is not permitted
 - b. Interim statement (issued in year of early compliance) - restatement is required
109. Nonqualifying assets
- a. Definition of "postretirement benefit fund" - assets accumulated in the hands of a funding agency for the sole purpose of paying postretirement benefits when the claims are incurred or benefits due. Such assets may or may not qualify as plan assets.
 - b. A special rule, as described below, applies if some portion of the assets held in a postretirement benefit fund do not qualify as plan assets.
 - c. Special rule - the employer must recognize in the statement of financial position the following:
 - (1) The fair value of those nonqualifying assets as the employer's assets (not prepaid postretirement benefit cost)
 - (2) An equal amount as an accrued postretirement benefit obligation

110. DB plan transition obligation (asset) definition - a minus b, as defined below and determined as of the beginning of the fiscal year in which FAS 106 is adopted:

- a. APBO
- b. Fair value of plan assets, adjusted as follows:
 - (1) increased by any recognized accrued postretirement benefit cost or
 - (2) decreased by any recognized prepaid postretirement benefit cost

DB plan transition obligation (asset) amortization

- a. Immediate basis - recognized in net income of the period of the change as the effect of a change in accounting principle³¹

Footnote 31 - The effect of the accounting change and the related income tax effect must be presented in the statement of income between the captions "extraordinary items" and "net income". The per share information presented on the statement of income must include the per share effect of the accounting change.

- b. Delayed - as a component of net periodic postretirement benefit cost

DC plan transition obligation amortization - as described above for DB plans.

Transition obligation (asset) amortization consistency requirement - The same method of amortizing transition amounts must be used for all postretirement benefit plans.

111. Transition obligation (asset) - immediate recognition - Special rules for certain employers who elect immediate recognition are as follows:

- a. For plans adopted or benefit improvement made between 12/21/90 and the FAS 106 compliance date - the effects of such actions must be treated as unrecognized prior service cost and excluded from the transition amount immediately recognized
- b. For business combinations consummated between 12/21/90 and the FAS 106 compliance date and accounted for according to the purchase method - adjust the accounting, as necessary, to include in the assignment of the purchase price to assets acquired and liabilities assumed, recognition of the difference between the APBO as of the business combination date and the fair value of plan assets.

112. Transition obligation (asset) - delayed recognition - If delayed recognition is elected, the transition obligation or asset must be amortized on a straight-line basis over the average remaining service period of active plan participants, with the following exceptions:
- a. If the remaining service period is less than 20 years, the employer may elect to use a 20 year period.
 - b. If all or almost all of the plan participants are inactive, the employer must use the average remaining life expectancy period of those plan participants.
 - c. If (1) exceeds (2), as defined below, such difference must be treated as an additional amortization of the transition obligation:
 - (1) Cumulative benefit payments made under the plan subsequent to the transition date
 - (2) Cumulative postretirement benefit cost accrued subsequent to the transition date

For the purpose of applying the cumulative benefit test, the following additional rules apply:

- a. Cumulative benefit payments must be reduced by any of the following as of the transition date:
 - (1) Plan assets
 - (2) Any recognized accrued postretirement benefit obligation
 - b. Payments made pursuant to a settlement (see ¶ 90-94) must be included in the determination of cumulative benefit payments made subsequent to the transition date.
113. Transition obligation (asset) - interim statements - The following are special rules for interim statements when the cumulative benefit test applies:
- a. The amortization of the transition obligation in each interim report must be based on the amount expected to be amortized for the year except that the effects of applying ¶ 112 for any settlement. (Such effects must be recognized when the related settlement is recognized.)
 - b. The effects of changes during the year in the initial assessment of whether additional recognition of the unrecognized transition obligation will be required will be recognized over the remainder of the year.
 - c. Any difference between the estimated and final amount of the unrecognized transition obligation to be amortized in the current year must be recognized immediately at the end of the year.

Effective Date and Transition--Amendment to Opinion 12

114. Effective date/transition - Amendment to Opinion 12 - ¶ 6 and the related footnote of APB Opinion No. 12 *Omnibus Opinion-1967*, are amended effective for fiscal years beginning after 3/15/91. The effect of this amendment on existing individual deferred compensation contracts depends on whether such contracts provide postretirement health and welfare benefits or not, as shown below:
- a. Do not provide postretirement H&W benefits - must be recognized as a change in accounting principle in accordance with ¶ 17-21 of APB Opinion No. 20, *Accounting Changes*.
 - b. Do provide postretirement H&W benefits - subject to the general transition provisions and effective dates of FAS 106

Rescission of Technical Bulletin 87-1

115. Rescission of Technical Bulletin 87-1 - FAS 106 rescinds FASB Technical Bulletin No. 87-1, *Accounting for a Change in Method of Accounting for Certain Postretirement Benefits*